



City Councilmember

**Carl DeMaio**

News Release

# DeMaio Unveils Plan to End DROP “Double Dipping” in Pension System

*DROP Program Costs Taxpayers Between \$149 Million & \$182 million*

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San Diego – Councilmember Carl DeMaio, one of the primary authors of the Prop B Comprehensive Pension Reform (CPR) Initiative, today unveiled another sweeping pension reform proposal to end the notorious DROP Program in the city’s pension system.

The DROP Program allows city employees to retire in place and retain their jobs for up to five years – resulting in a “double dipping” perk where city employees continue receiving a full salary while simultaneously receiving a full pension payout.

“It is well past time to end the DROP double-dipping pension program,” DeMaio declared. “The City Attorney has weighed in on this issue and provided city leaders with a legal avenue for reform; we must act now to drop the DROP program and end this offensive gouging of the taxpayer.”

Analysis by the Buck Actuarial company shows the DROP Pension Program will cost taxpayers between \$149 million and \$182 million – with \$24 million paid in interest to DROP accounts in the last year alone.

A look at the top ten DROP payments in 2011 shows annual payments as high as \$113,900 and a combined annual payment of over \$850,000 for just these ten individuals. This has increased their pension payments by an average of 58%, with one retiree increasing their pension 71% because of DROP.

While city politicians and union bosses claim the DROP program was ended in 2005, the truth is the DROP program is very much alive with almost 1,000 city retirees currently collecting checks from the program, almost 1,200 employees enrolled in the program, and 5,600 employees eligible for the program in the future.

DeMaio is proposing five reforms to the DROP program, all based on legal analysis conducted by City Attorney Jan Goldsmith. DeMaio’s DROP reforms include:

- **Eliminate DROP Interest Rate:** DeMaio is proposing that the SDCERS Board remove the guaranteed interest rate on DROP accounts and return any interest to the pension system, removing this burden on taxpayers.
- **Increase Contribution Rates for DROP Participants to Maximum Allowed:** Increase the city employee contribution rate from the current 3.05% to a range of 6.7% to 17.6% depending on their age and classification.
- **Reduce DROP Participant Salaries:** To eliminate the “double dipping” nature of DROP entirely, reduce each active DROP participants’ salary by an amount equal to the pension payout paid to the employee. If an employee does not want a reduction in salary, they simply would not enter the DROP program.

“By ending the notorious DROP program, these five reforms will save taxpayers tens of millions of dollars in the first year by stopping the double-dipping by city employees who are taking in a full salary and a full pension payout simultaneously,” DeMaio concluded.

# Carl DeMaio's Plan to "Drop the DROP"

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## The Taxpayer Cost of DROP at a Glance

Retirees collecting DROP – 980 and growing

City employees *currently enrolled* in the program – 1,200 and growing

City employees *eligible* for the program – ~ 5,600

DROP Liabilities – \$424 million

Interest paid in DROP in FY11 – \$24.4 million

## Carl DeMaio's Five Reforms to "Drop the DROP"

### **DROP Reform 1: Eliminate the DROP Guaranteed Interest Rate**

In 2009 & 2011, Carl DeMaio successfully pushed SDCERS to lower the guaranteed interest rate on DROP participation accounts from a staggering 7.75% to 1.9% (and DROP annuity accounts from 5% to 4.4%).

However, because DROP members still enjoy an interest rate of 1.9% & 4.4%, with taxpayers on the hook to guarantee, DeMaio is proposing that the SDCERS Board eliminate a guaranteed interest rate altogether and return all interest on DROP accounts to the pension system. If enacted last year, this reform would have saved over \$24 million in FY11.

### **DROP Reform 2: Increase Contribution Rates for DROP Participants to Maximum Allowed**

Increase the city employee contribution rate from the paltry 3.05% -- to a range of 6.74% to 17.57% depending on their age and classification, equal to normal retirement contribution levels.

### **DROP Reform 3: Reduce DROP Participant Salaries**

In 2009, the City was successful in obtaining a court decision which determined that salaries of DROP participants do not constitute a vested benefit. In 2005, the city imposed a meager reduction – but this reduction did not discourage city employees from enrolling in the program.

To eliminate the "double dipping" nature of DROP entirely, reduce each employee's salary by an amount equal to the pension payout paid to the employee. If an employee does not want a reduction in salary, they simply would not enter the DROP program.

### **DROP Reform 4: Measure & Report DROP Reforms**

City leaders must be honest about the extent of DROP and the progress of reform. The City should immediately begin posting data online which lists the number of DROP participants, those eligible, and the amount paid out each year to the program. This will allow taxpayers to measure the results of the above reforms in the future.

### **DROP Reform 5: File for Declaratory Relief to Eliminate the Program**

DeMaio proposes the City seek Declaratory Judgment from the Courts to affirm the City's right to completely eliminate the program. A Judgment by the Court will reduce time-consuming litigation by clearly stating the power of the City to eliminate DROP.

# What is DROP?

- ✓ City employees are allowed to take a **full pension** while continuing to collect a **full city salary**!
- ✓ Pension payments go into an account with a **3% city contribution** on top of a **guaranteed interest rate of 1.9%**!

## What They're Saying About DROP...

"City pensions are higher with DROP."

– Union-Tribune, September 29, 2010.

The San Diego  
**Union-Tribune.**

"It has come under intense criticism as a 'double-dipping' perk."

– VoiceofSanDiego.org, February 16, 2011. "The Pension Perk's Unknown Zero."

  
**voice of**  
san diego.org

"DROP withdrawals... can add as much as \$100,000 a year to employee pensions."

– Union-Tribune, March 2, 2011. "Study: DROP program costs S.D. taxpayers \$149 million"

The San Diego  
**Union-Tribune.**

"It's more lucrative to be in DROP than it is to be an employee because you don't have to contribute to the pension system."

– City Attorney Jan Goldsmith, quoted in the Union-Tribune, March 7, 2011. "Battle Brewing Over Retirement Program."

The San Diego  
**Union-Tribune.**

## Legal Support for DeMaio's Reforms

"The City could either **adjust salaries so that DROP participants receive the same net salaries they would have received as a non DROP participant** or require their normal retirement contribution levels."

"The Ninth Circuit Court of Appeals held that employees have **no vested contractual rights to a certain salary** while participating in DROP."

"There are 'reopener' provisions in the present agreements with the City's recognized employee organizations, relating to negotiations on 'the impacts, if any, that result from the City's defining DROP's cost neutrality.' **These reopeners may be sufficient to allow the City to negotiate a decrease in salaries for DROP participants.**"

- *San Diego City Attorney Jan Goldsmith, Memorandum of Law re: DROP Cost-Neutrality, March 7, 2011.*

## Top Ten Annual DROP Payments (2011)

Job Title	Regular Pension Payment	DROP Payment	Percent Increase from Regular Pension to DROP	Total Pension Payment
Assistant City Attorney	\$193,858	<b>\$113,900</b>	59%	\$307,758
Fire Chief	\$134,298	<b>\$95,455</b>	71%	\$229,753
Fire Battalion Chief	\$151,726	<b>\$92,709</b>	61%	\$244,435
Assistant Police Chief	\$157,502	<b>\$85,445</b>	54%	\$242,947
City Librarian	\$149,011	<b>\$85,080</b>	57%	\$234,091
Fire Battalion Chief	\$144,345	<b>\$84,047</b>	58%	\$228,392
Fire Battalion Chief	\$136,782	<b>\$80,867</b>	59%	\$217,649
Investment Officer	\$180,931	<b>\$74,578</b>	41%	\$255,509
Asst. Water Dept. Dir.	\$142,539	<b>\$71,468</b>	50%	\$214,007
Fire Captain	\$108,498	<b>\$70,008</b>	65%	\$178,506

The top 10 DROP payments alone total over **\$850,000** per year, increasing each retiree's pension by an average of 58%.

## Top Ten DROP Account Balances

City employees who enter the DROP program can bank hundreds of thousands of dollars. They are allowed to take this payment in one lump sum upon retirement or a periodic distribution. The city's largest DROP account was valued at over a million dollars as of December 31, 2010.

	Status	Amount
1	Retired DROP	\$1,041,746
2	Retired DROP	\$974,917
3	Retired DROP	\$886,267
4	Active DROP	\$853,254
5	Retired DROP	\$852,707
6	Retired DROP	\$851,451
7	Retired DROP	\$820,220
8	Retired DROP	\$795,585
9	Retired DROP	\$789,227
10	Retired DROP	\$779,480